

Scottish Rural Fuel Poverty Taskforce

Moving to a “smarter market” - a note from Ofgem

At the meeting of the Rural Fuel Poverty Taskforce on 22 September, representatives from the smart meter rollout team at the Department of Energy and Climate Change (DECC) gave a presentation and answered questions about the rollout programme. The roll-out of smart and advanced metering is an opportunity to make retail energy markets work better for consumers. During the Forum’s discussion it was agreed that a short note explaining some of the accompanying work that is going on to review existing market arrangements to help realise these benefits would be helpful.

Ofgem’s [vision is for ‘smarter markets’](#) that are more efficient, dynamic and competitive. This will not be realised without changes to the arrangements that underpin how market participants interact with each other. We are leading work over the next few years to make sure the smarter market becomes a reality, while also considering how regulation needs to be evolve to protect consumers while encouraging innovation.

Reliable, next-day switching for consumers

The switching process is critical to how consumers experience and respond to the retail energy market. So we’ve set up [the Switching Programme](#) to radically transform current switching arrangements, and deliver reliable, next-day switching for consumers. Our aim is to introduce the new arrangements by 2019.

Consumer Empowerment and Protection in a smarter market

The Consumer Empowerment and Protection project aims to ensure that consumers can participate effectively in smarter retail energy markets, recognising the opportunities and risks involved. We identified prepayment as an area that suppliers needed to get right from the early days of the smart meter roll-out and we have reviewed the regulatory framework to ensure that the benefits of smart can be realised for PPM customers. We are encouraged by the developments we have seen so far, and expect to see continuing innovation in the market, helping to support delivery of the significant benefits that smart meters can bring to prepayment consumers.

For example, it will be possible to offer emergency credit for both electricity and gas; alerts can be sent in case of low credit or high consumption; and a wider range of top-up channels can become available. These functionalities will make prepayment a far more convenient proposition. They can also act as important safeguards against self-disconnection, and will be particularly important for more vulnerable consumers.

We propose to start monitoring suppliers’ use of such functionalities through our existing Social Obligations Reporting. Monitoring will allow us to understand if consumers have access to these smart prepayment benefits, to identify quickly if there are any issues or concerns, and to act on these as needed.

An end to estimated bills is another key benefit of smart meters. Last year we consulted on proposals to limit consumers’ exposure to backbilling, and we plan to publish our decision in March.

Making the electricity system more flexible and delivering the benefits for consumers

We define flexibility as ‘modifying generation and/or consumption patterns in reaction to an external signal (such as a change in price) to provide a service within the energy system’. To date, the energy industry has typically provided this flexibility on the ‘supply-side’. For example, to make sure supply always matches demand, electricity power stations have changed how much they produce, and network operators have built enough cables to make sure this electricity can always be transported to consumers. But our energy system is changing, and continuing to rely on supply-side solutions alone would be expensive.

New ways of providing flexibility are emerging, which can help us deliver against our carbon commitments, while providing reliable and secure supply at minimum cost.

Demand-side response: Consumers (the ‘demand-side’) can sign up to special tariffs and schemes, which reward them for changing how and when they use electricity (known as ‘demand-side response’). Smart meters and other technologies will make this easier than ever for domestic consumers.

Energy storage: We can use batteries or other forms of storage to store energy when it is plentiful, or when there is too much for network cables to carry. This energy can then be used at a time when it’s needed.

Distributed generation: We can use low carbon electricity which we generate locally at home or at work – for example from a rooftop solar panel – to help reduce the costs of transporting it and save us money on bills.

Doing more of all these things could help us to integrate more sustainable energy sources like wind-power into our supply system.

We want to make sure that the rules governing how electricity is bought and delivered will allow consumers and industry to draw as much benefit as they can from the opportunities provided by these new sources of flexibility.

We’re [looking at how current rules and regulations](#) may prevent consumers and other system users, both old and new, from doing so.

Moving to half-hourly settlement

Settlement arrangements work out how much consumers use in each half hour of the day and how much suppliers pay for that electricity. Currently, most consumers’ half-hourly consumption is estimated. As smart meters can record actual half-hourly consumption, this data can be used in settlement. This would encourage suppliers to offer tariffs that cut charges for consumers that use electricity when it is cheaper.

We have approved an industry proposal to settle larger businesses using their half-hourly consumption data and have been looking at [how the same can be achieved](#) for smaller businesses and households.

Settling all consumers on a half-hourly basis raises a number of policy questions. For example, the impact of tariffs that enable DSR – such as time-of-use (ToU) tariffs – will vary between consumers. In particular, those who consume electricity at more expensive

peak periods and who are unable to significantly change their consumption patterns could end up paying more. Therefore the distributional effects of HHS will need to be examined and, where necessary, possible mitigations considered. It is also important to consider how best to support consumer engagement and understanding in a market that is more complex, for example as a result of ToU pricing. Consumer action is necessary to help make the overall system more efficient. In these areas, DECC will be involved in progressing this work.